

BUDGET NOTE

February 2017



Budget (2017-18) implications to Real Estate

The Union Budget 2017-18 contains several measures which are focussed towards bringing so of the much required reforms in the real estate sector. These are largely centred around *Housing for All* and sector specific *tax reforms*. Providing a major thrust to the Housing for All mission, the government has granted infrastructure status to Affordable Housing. Another crucial step in this direction is the announcement of creating one crore houses under Pradhan Mantri Awaas Yojana (PMAY) for people who do not own a proper shelter.

In addition to this, the National Housing Bank will be refinancing individual housing loans amounting to about Rs 20,000 crores. This will further reduce the cost of home loans in the country. Apart from real estate specific announcements the government has significantly increased its budgetary allocation towards infrastructure sector. An allocation of Rs 396,135 crores has been made towards infrastructure development during 2017-18. This is around 80 per cent higher than the previous year's figure of Rs 221, 246 crores. With an objective of increase the inflow of foreign investment in the country the government has also proposed to further liberalize the FDI policies.

Affordable Housing gets Infrastructure status

The government has granted infrastructure status to affordable housing. This reform will increase the importance of affordable housing as a key economic driver. The sector is expected to receive a greater level of attention and support from the government in the form of dedicated budgetary allocations and focussed policy initiatives. In line with key infra verticals such as roads and highways, developers of affordable housing will be entitled to various benefits such as tax exemptions, subsidies and cheaper loans. The move will significantly boost investment in the sector thereby increasing the supply of affordable housing in the country.

Tax reforms

While revising capital gain taxation provisions with respect to land and building, it has been proposed to reduce the threshold of long term gain from three years to two years. In case of joint developments the liability to pay capital gain tax has been pushed to the year during which the project is completed. As a result, key stake holders especially the land owners will not have to bear tax burden at the initial stage of the project. This move will encourage more and more land owners to participate in joint developments thereby increasing supply of land in the sector.

Another respite is the proposal to exempt developers from paying tax on notional rental income for a period of one year after receiving the completion certificate. The reform will provide developers sufficient time to liquidate their inventory.

Furthermore, it has also been proposed to ease out the completion period criteria under section 80-IBA (Deductions in respect of profits and gains from housing projects). Eligible projects (as

explained in section 80-IBA) can now be completed within a period of 5 years instead of the previous cut-off of 3 years to avail 100 per cent tax exemption on profits and gains. In addition to this, area limitation criteria of 30 sqm (Chennai, Delhi, Kolkata or Mumbai) and 60 sqm (Rest of India) will now be calculated in terms of carpet area instead of built up area while deciding the eligibility. As a result higher number of housing projects will get benefitted from of the scheme.

Infrastructure development

The government has allocated a budget of Rs 241,387 crores towards development of transport infrastructure including rail, roads, and shipping which are the key growth drivers of the realty sector. Apart from traditional infrastructure, the government has provided special impetus towards creation of extensive Metro Rail Systems in the country which is crucial for the development of modern cities. Government has also proposed to implement a new Metro Rail Act which will focused towards bringing in higher level of innovation, standardization and private participation in the sector.



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